

## **INFORMATION BULLETIN #7**

### **INCOME TAX**

**JANUARY 2003**

**(Replaces Bulletin #7 dated December 1987)**

**DISCLAIMER:** Informational bulletins are intended to provide nontechnical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules and court decisions. Any information that is not consistent with the law, regulations or court decisions is not binding on either the department or the taxpayer. Therefore, the information provided herein should serve only as a foundation for further investigation and study of the current law and procedures related to the subject matter covered herein.

**SUBJECT:** Filing Requirements for Prior Year Individual Income Tax Returns

**REFERENCES:** IC 6-3; IC 6-8.1-10

### **INTRODUCTION**

The Department has prescribed Form IT-40P for use in filing original Indiana individual income tax returns for tax years prior to January 1, 1997. Returns filed for 1997 to current should be filed on the original return for the appropriate year.

Both residents and nonresidents should use Form IT-40P. Nonresidents should complete the sections noted in the IT-40P instructions which are

specifically designed for their use. Form IT-40P should not be used to file an amended (corrected) return. Form IT-40X should be used to file an amended return for any tax year.

The IT-40P booklet contains: Form IT-40P, Schedule X for Indiana deductions, Schedule Y for Indiana credits, and Schedule Z for part-year and full-year nonresidents, Schedule CT-40P (used to compute county income taxes) and instructions for the IT-40P and accompanying schedules.

The instructions needed to file Form IT-40P for tax years 1980 to 1996 are contained in the IT-40P booklet. Instructions needed to file returns for tax years 1964 through 1979 are contained in this Bulletin, which serves as a supplement to the IT-40P instructions.

**Adjusted Gross Income Defined:** For tax years after 1963 Adjusted Gross Income is defined under Section 62 of the Internal Revenue Code, modified by Indiana provisions for exemptions, income, and adjustments, as set forth in these instructions and/or the instructions contained in the IT-40P package.

## **Adjustments**

**Adjustments to Income:** Listed in the instructions for Form IT-40P are any adjustments which are available for tax years 1964 through 1979. Listed below are four additional adjustments available during this period.

**Renter's Deduction:** You may deduct rent paid on property used as your principal residence, if such property was subject to Indiana property taxes. For tax year 1973, the deduction is limited to one half of the rent paid, or \$500, whichever is less. For tax years 1974 and 1975 only, the deduction is limited to the amount of rent paid, or \$1,000, whichever is less. No deduction for rent was available for tax years 1976, 1977 and 1978. For tax years beginning in 1979, you are allowed a deduction of the actual amount of rent paid on your principal place of residence during the tax year or \$1,500, whichever is less.

**National Bank Dividends:** These are non-taxable for tax years prior to 1973; for tax years 1973 and thereafter these dividends are fully taxable.

The dividends must first be included in the total dividends reported on your IT-40P and then taken as an adjustment to income. Attach to your IT-40P a copy of your federal Schedule B to verify this adjustment.

**New Jobs Credit:** For tax year 1977 only, a deduction is allowed from the federal taxable income by that amount of wages which could not be deducted due to the use of this credit. If the deduction is claimed, a supporting explanation must accompany the return. If the deduction is taken on the IT-20S or the IT-65, no deduction will be allowed to the individual shareholders or partners on their individual income tax returns. The deduction is taken under "Other Deductions" on the IT-40P.

**Active or Reserve Military Pay:** An adjustment is available for tax years 1963 through 1966, to members of reserve components of the armed forces of the United States, to the extent that such income is included in the total income. This adjustment may be applied to compensation received from active or inactive reserve components including the Army, Navy, Air Force, Coast Guard, Marine Corps, Merchant Marine, Indiana Army National Guard or Indiana Air National Guard. However, this adjustment may not be applied to compensation received from regular service or retirement pay. For tax years beginning with 1967 see the "Adjustments for Military Pay". Attach to your IT-40P a copy of your military reserve W-2 withholding statement to verify this adjustment. Enter this adjustment under "Other Deductions", or "Other Adjustments", and note on the line that the adjustment claimed is for Reserve Pay.

## Exemptions

All information concerning exemptions for tax years 1964 through 1979 are contained in the IT-40P instructions. However, it bears repeating that part-year and nonresidents should not prorate their exemptions for tax years prior to 1969.

## Computing Tax Rates

**Income Tax:** The individual income tax has been computed at the rate of two percent (.02) for tax years 1964 through 1978. In 1963 a split year tax rate was in effect and prior to that time various rates of tax were used under the 1933 Gross Income Tax Act. Therefore, if you wish to file a return

for a period prior to the 1964 tax year, you should contact the Department of Revenue for additional information concerning pre-1964 tax rates.

For tax year 1979 only, the effective state tax rate is 1.7 percent (.017). For tax year 1980, 1981 and 1982 the tax rate is 1.9 percent (.019). For tax years 1983 to 1986 the tax rate is three percent (.03). For 1987 the tax rate is 3.2 percent (.032) and for 1988 the rate increases to 3.4 percent (.034).

**County Tax:** If, as of July 1, for tax year 1973, or January 1 for tax years after 1973, your legal residence or your principal work activity was located in an Indiana county which had adopted county tax, Schedule CT-40P must be completed. Carry the amount of county tax due from the appropriate lines of Schedule CT-40P to Form IT-40P.

**Sales and Use Tax:** This tax is levied on retail purchases of tangible personal property. If during the tax year for which you are filing you made purchases from out-of-state firms on which sales tax was not charged, you must report the use tax due on these purchases on Form IT-40P. The Sales and Use tax rates are: two percent (.02) from October 23, 1963 until May 1, 1973, at which time the rate increased to four percent (.04) until January 1, 1983. Effective 1983, the rate was five percent (.05). Since December 1, 2002 the rate has been six percent (.06).

## Credits

All information concerning allowable credits for tax years 1964 through 1979 are contained in the IT-40P instructions. However, the following credits have additional restrictions in former tax years. Note that sales tax credits used in years 1964 through 1972; credit for refund of property taxes, used in years 1973 through 1980; and utilities tax credit or unified tax credit, beginning in 1978, are no longer available to be claimed. The statute of limitations demands that a claim for any such credit be filed within six (6) months after the close of the tax year.

**College Credit:** For tax years 1967 to the present a credit is allowed against your Indiana adjusted gross income tax for contributions made to institutions of higher education located within the State of Indiana, to any corporation or foundation organized and operated solely for the benefit of any such institution of higher education, and/or to the Associated Colleges

of Indiana. An updated listing of qualifying institutions is included each year on Schedule CC-40. Contact the Department of Revenue for more information.

You must complete and attach Schedule CC-40 to be allowed this credit on Form IT-40P. Please note the additional limitations this credit has for the following tax years: Effective for tax years 1967 and 1968 only, the allowable credit for gifts or donations is fifty percent (50%) of the contribution, but not to exceed; a) \$50 on a single return or \$100 on a joint return; or b) twenty percent (20%) of the amount of state income tax due on Form IT-40P, whichever is less. Effective for tax years 1969 through 1977 the allowable credit for such gifts or donations is fifty percent (50%) of the contribution, but cannot exceed \$50 on a single return or \$100 on a joint return. In no case may this credit exceed the amount of state income tax due on Form IT-40P. Effective since 1978, the allowable credit is fifty percent (50%) of the gift or donation, but cannot exceed \$100 on a single return or \$200 on a joint return. In no case may this credit exceed the amount of state income tax due on Form IT-40P.

**Retirement Income Credit or Credit For The Elderly:** This credit is effective for tax years 1965 to 1979. If you qualify for this credit for federal tax purposes, and are an Indiana resident for a least a part of the tax year, you are also allowed a credit against your Indiana adjusted gross income tax liability. The Indiana credit equals  $\frac{2}{15}$  of the tentative credit from federal Schedule R, a copy of which should be attached to your IT-40P. Calculations are provided below for Full-Year Residents and Part-Year Residents. Full-Year Nonresidents may not claim this credit on their Indiana return.

Full-Year Residents of Indiana should complete lines A through C and enter the total from line C under "Other Credits" on Form IT-40P. Part-Year Residents should complete lines A through D and enter the total from line D under "Other Credits". In no case may this credit exceed the amount of State Adjusted Gross Income Tax due on your IT-40P.

- A. Enter the tentative credit from federal Schedule R/RP.....A \_\_\_\_\_
- B. Multiply line A by 2.....B \_\_\_\_\_
- C. Divided line B by 15.....C \_\_\_\_\_

**D.** Multiply line C by percentage from Box 12, Form IT-40P...D\_\_\_\_\_

For tax year 1980 only, the credit is calculated by multiplying the tentative federal credit by .1267. Federal Schedule R/RP must be attached to your IT-40P to verify this credit.

**County Retirement Income Credit or County Credit for the Elderly:**

Effective for tax years 1973 through 1980, if you qualify for the Retirement Income Credit or the Credit for the Elderly for state and federal tax purposes, you are also allowed a credit against your county adjusted gross income tax. You should compute the credit according to the table given below for tax years 1974 to 1980. (Contact the Department for the effective rates applicable to tax year 1973.) Use the county tax rate that is applicable for the filing tax year to find the state percentage of Retirement Income Credit or Credit for the Elderly allowed against the county tax. The credit may not exceed the amount of your county adjusted gross income tax.

<b>COUNTY RATE</b>	<b>ALLOWABLE PERCENTAGE OF THE STATE CREDIT</b>
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1% (.01).....	50%
3/4% (.0075).....	37.5%
1/2% (.005).....	25%
1/4% (.0025).....	12.5%

**Credit for Taxes Paid to Other States:** As an Indiana resident you must report all income received for the tax year, even if you are required to pay tax on a portion of this income to another state. You must also report all income received from Indiana sources while a nonresident of this state. The tax treatment depends upon the type and source of such income. You must contact the Department to verify the tax treatment of your income for tax years prior to 1980 when claiming credit for taxes paid to other states.

**Computation of Credit for Taxes Paid to Other States:**

The credit you may claim is the **LESSER** of:

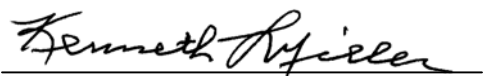
1. The amount of tax actually paid to the other state (This does not mean the tax withheld from your wages. It means the actual tax due computed on the other state's income tax return); or
2. The amount of Indiana adjusted gross income tax due on your Indiana return; or
3. The income taxed in both states multiplied by Indiana's tax rate.

For tax years prior to 1979 the credit is limited to 2% (.02) of the income. For 1979, the credit is limited to 1.7% (.017) of the income. For 1980 through 1982, the credit is limited to 1.9% (.019) of the income. For 1983 to 1986, the credit is limited to 3% (.03) of the income. For 1987 the credit is limited to 3.2% (.032) of the income. For 1988 the credit is limited to 3.4% (.034) of the income.

A copy of the other state's tax return filed must be attached to Form IT-40P to substantiate your credit. In no case may the credit claimed for Taxes Paid to Other States exceed your Indiana adjusted gross income tax due on Form IT-40P.

**NOTE:** The above-mentioned credits along with any Solar and Wind Energy Credit are non-refundable; therefore, the combined totals of each of these credits may not exceed the amount of Indiana adjusted gross income tax due on Form IT-40P.

If you have any questions concerning your filing, or wish to file for a period prior to 1964, contact the Department of Revenue by calling (317) 232-2240.



Kenneth L. Miller  
Commissioner